

>: Profit From The Crowd

Thursday, August 30, 2007 | Chris Rowe

In [last Thursday's article](#),

I revealed which month was, on average, the top performing month since 1991. I also revealed the top three consecutive months. Not one single reader could give the correct answer in the poll that I took the week prior to that. One thing that [Ben Schott](#) said was correct, however. He said that he imagines I was asking because that month must be coming up.

Now, since the top performer, ON AVERAGE, is October, and since this year, a pre-election year, is typically the strongest out of the four-year election cycle BY FAR, and since September is *usually the* worst performer, *on average*,

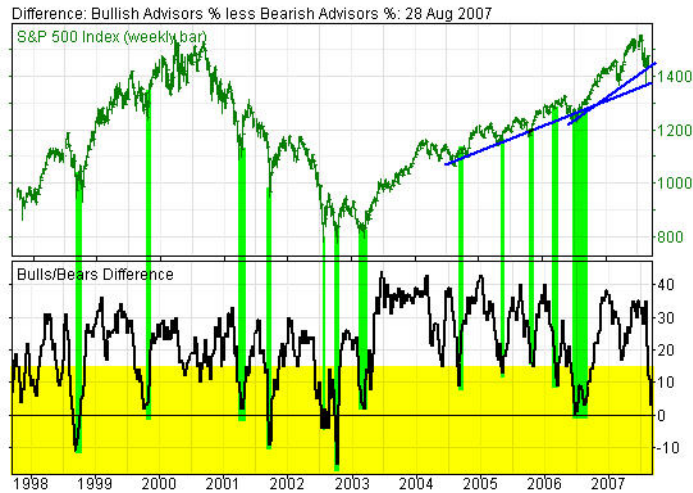
I figured that you should keep the seasonal facts in mind during this correction. (Again, these seasonal facts are averages. They don't occur every year. But it's important to know about them.)

But as usual, I also stressed the concept of *synergy*

. You must take many different facts into consideration when making a trading decision. The more indicators or facts that you have on your side, the more odds are stacked in your favor. After all, the key to making ridiculous money in the market is managing risk. If the odds aren't stacked heavily in your favor, then don't be afraid to sit in a money market account and collect 5% while you wait for the pitch that's in your strike zone - even if it takes weeks, months or even years to find that pitch. (Cash is a trade, too.)

Below is a version of one of many indicators that I consider. It's an Investors Intelligence Advisors' Sentiment reading chart. Each week, over 100 newsletter writers are polled as to whether they are bullish, bearish, or expect a correction. This reading comes in many forms, but my favorite is the "difference between bulls and bears" reading. Long story short, this is a contrary indicator. Basically, investors are overly bearish near bottoms,

and overly bullish near tops. This goes



Currently, 41.7% of advisors polled are bullish, and 37.4% are bearish. Currently the difference between the two is 4.3%. When this reading moves lower than 15% AND THEN EXPANDS AGAIN, it's usually a sign of a bottom. Above is a chart of the S&P 500 vs. the difference between bulls and bears chart. I highlighted, in yellow, the area representing a 15% difference and lower. In June 2006, there was zero difference as the bulls and bears were dead even at 35%. The lowest point before that was the 2002-2003 bottom.

Again, this is just one of several readings that I track. You have to take a synergistic approach to investing. I'm still waiting for the reading to expand (as it only expanded for the first time this week by 1.1% which I don't think is a very strong expansion).

My point is that guys like me would love to see even more pessimism. It gives me good entry points on bullish trades. But I prefer to wait until I see some confirmation which I have only partially seen lately. I'm not into anticipating changes or predicting future trends. I'm all about clearly identifying the current trend, sentiment and breadth of the market.

At [The Trend Rider](#), I've been profitable on 13 out of the last 15 closed out trades (one was down 9% another down 30%), not because I'm some kind of wizard, but because I'm only trading when the odds weigh heavily in my favor. When I'm not confident with myself, or when I have too many conflicting signals, I just don't do anything. I advise you to do the same.

?Profit from the Trend?

Chris Rowe
Chief Investment Officer

≥